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**MICRO
ONLY**

11 September 1974

MEMORANDUM FOR: Mr. Philip DuSault
International Affairs Division
Office of Management and Budget

SUBJECT : Transmittal of CIA Analysis of
1974/75 Grain Situation in
Selected Countries

In response to your request of 28 August we are
transmitting an update of the report sent to you on 16 July.
The format, coverage and countries reviewed are similar to
the 16 July report. Queries concerning this report should
be directed to

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Acting Chief
Industrial Nations Division
Office of Economic Research

Attachment:

As stated

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The Grain Situation in Selected
Countries for FY 1975

Agriculture and Materials Branch
Office of Economic Research
Central Intelligence Agency

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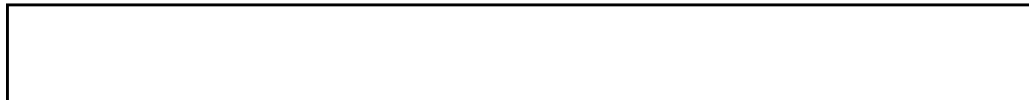
The Grain Situation in Selected
Countries for FY 75

Introduction

This report updates an earlier version* based on information available since early July on grain production and trade prospects for key "swing" countries and on grain import needs of potential US Food Aid Program (PL-480) recipients in fiscal year 1975. The swing countries include Argentina, Australia, Canada, and Western Europe -- major western exporters of wheat -- and the USSR, PRC, Eastern Europe, and India -- potential disruptive factors in the grain market. Potential PL-480 recipients considered in the report (in addition to India) are Bangladesh, Burma, Cambodia, Egypt, Indonesia, Morocco, Pakistan, Philippines, Sahel, South Korea, South Vietnam, and Sri Lanka. While most of the analysis deals with wheat, the import demand for coarse grains -- especially corn -- is reviewed where important because of deterioration in the 1974 US production situation.

Principal Findings

1. The 1974/75 world grain situation has tightened and prices have strengthened during the past 2 months for several reasons.



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°The US grain production estimate was cut 39 million tons.

°USSR wheat output was cut 7 million tons by CIA.

°A drop of over 1 million tons in the Canadian Wheat Board estimate of this year's wheat crop and transport strikes have reduced Canada's potential grain export capability for FY 75.

°The USSR has reportedly turned down India's request for 2 million tons of wheat.

°World rice production is now projected by USDA to be several million tons below last year.

2. The production shortfalls and transport difficulties are reflected in a reduced export availability for wheat among most foreign exporters as well as the US. We estimate this drop at 6.8 million tons from our July 15 estimate, as shown in the following table, to 56 million tons. This quantity is 5 million tons less than the 61 million tons exported in FY 74.

Wheat and Flour Exports by Selected Countries

(Million Metric tons)

	<u>FY 73</u>	<u>FY 74</u>	<u>Forecast FY 75</u>	
			<u>July 15</u>	<u>Sept. 9</u>
Argentina	3.5	1.1	3.4	3.0
Australia	5.5	6.0	8.0	8.7 _{a/}
Canada	15.6	11.5	12.5	11.5
W. Europe _{b/}	7.3	6.5	7.0	4.0 _{a/}
USSR	1.3	5.0	5.0	4.0
US	<u>32.0</u>	<u>31.0</u>	<u>26.9</u>	<u>25.8_{c/}</u>
TOTAL	65.2	61.1	62.8	56.0

a/ Mid-point of range

b/ Excluding intra EC 9 trade

c/ Based on USDA forecast of 950 million bushels

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The total available for export could be increased by another one or two million tons if US stocks are permitted to fall and/or the final wheat harvest is larger than now estimated. For Western Europe, however, the estimate of 4 million tons may be on the high side if demand for feed wheat exceeds current projections.

3. A number of uncertainties continue to cloud the demand side of the grain market. The two most important are (1) the extent to which depressed demand for meat in developed countries and high grain prices will lower total feedgrain requirements, and (2) whether the size and quality of grain stocks held by the USSR will forestall sizeable imports in FY 75.

4. Production prospects in India have not improved and grain import requirements may be closer to 7 million tons than our earlier estimate of 5 million tons. India will need foreign help to finance part of this larger amount.

5. Among other potential aid recipients, grain import needs appear to have risen in Bangladesh, Cambodia, and South Korea. The grain situation or ability to finance imports has improved in the case of Indonesia, Morocco, Pakistan, Philippines, and Sri Lanka. Egypt continues to exaggerate grain import requirements which suggests a stockpiling effort.

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The "Swing Countries"
(Major Exporters and/or Importers)

1. Argentina
2. Australia
3. Canada
4. Western Europe
5. Eastern Europe
6. USSR
7. PRC
8. India

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Argentina

Assuming normal growing conditions the 1974/75 wheat harvest beginning in December should be about 7.5 million tons, 20 percent above last year. Higher support prices have induced an expansion of the area sown to wheat to the 1972 level of 5 million hectares. On the other hand, output of the two principal feed grains, corn and sorghum, are expected to be down by at least 10 percent.

Despite an overall net reduction in total grain output, large carryover stocks should provide export availabilities of both wheat and feed grains in FY 75 well above the previous year.

	Million tons				
	<u>Production</u> <u>1973/74</u>	<u>1974/75</u>	<u>Exports</u> <u>FY 74</u>	<u>Export</u> <u>Availability</u> <u>FY 75</u>	<u>Anticipated</u> <u>Actual</u> <u>Shipments</u> <u>FY 75</u>
Wheat	6.2	7.5	1.1	3.4	3.0
Sorghum	6.0	4.8	3.0	2.7	2.7
Corn	10.0	9.4	5.1	5.5	4.9

Actual grain shipments will fall some 10 percent below estimated availabilities because of inadequate transport and storage facilities. Grain shipments from the 1973/74 crop to central elevators are currently running 1 million tons behind schedule with about 3 million tons of corn still in rural areas. About

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1 million tons of sorghum was destroyed on the stalk by heavy rains. Port congestion also is causing backlogs in deliveries and a decline in commitments for new grain sales.

Australia

Australia's last December-January wheat harvest totaled about 12 million tons, third largest on record, resulting mainly from a more than 20 percent increase in acreage. Taking into account carryover stocks and an estimated output of 11.5 million tons from the 1974/75 harvest, the Australian Wheat Board expects to have 8.6-8.8 million tons available for export during FY 75. About 6 million tons were exported during FY 74.

The area sown to barley, Australia's second-leading grain export, declined last year because of the expansion in wheat acreage. Still, a good crop was harvested and production in 1974 was up nearly 40% over 1973. The outlook is for a harvest of some 2 1/2 million tons for marketing next year, which should leave 1.3 million - 1.4 million tons of barley available for export during FY 75, compared with an estimated 1.2 million tons exported during FY 74.

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Million tons

	Production		Exports	Export
	<u>1973/74</u>	<u>1974/75</u>	<u>FY 74</u>	<u>Availability</u>
				<u>FY 75</u>
Wheat	12.0	11.5	6	8.6-8.8
Barley	2.4	2.6	1.2	1.3-1.4

Canada

Wheat: Canada's 1974 wheat harvest is now forecast at about 15.0 million tons -- 1.5 million tons below last year's level of 16.5 million tons. A 5% reduction in sown acreage, late planting, drought, weed growth, and grasshopper infestations are the factors responsible for the expected decrease in production. Output could drop even further when the damage from recent frosts is evaluated.

Million tons

	Production		Export	Export
	<u>1973/74</u>	<u>1974/75</u>	<u>FY 74</u>	<u>Availability</u>
				<u>FY 75</u>
Wheat	16.5	15.0	11.5	11.5
Barley	10.3	10.1	2.7	2.7

Wheat export levels in FY 75 are still uncertain due to transport problems and lack of information on Canadian intentions to draw down stocks. Despite a smaller output, exports could reach the 11.5 million metric tons moved last year if the Canadians chose to drawdown stocks -- now equivalent to a two year domestic supply -- and there are no further or prolonged disruptions in the transport system.

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In addition to the production shortfall, transport delays -- due to current strikes affecting both East and West coast ports and a traffic accident in the Welland Canal -- now are expected to hold Canadian exports of wheat and feedgrains 1 1/2 million tons, or 8%, below our earlier estimates for FY 75. Total grain exports consequently will be no larger than last year's level of 15.7 million tons, including 11.5 million tons of wheat, 2.7 million tons of barley, and 1.5 million tons of other grains and oil seeds.

The level of wheat exports may be even lower depending on stock withdrawals and pricing policies of the Canadian Wheat Board. In FY 74, the Canadian Wheat Board raised its prices well above those of the US market in anticipation of shortages in the United States. If a similar policy is followed again this year, export volume would tend to be depressed, especially for sales to LDCs already hard pressed by high oil import costs. Also if feedgrain prices escalate, Canada may use its transport capacity to export more feedgrains instead of wheat.

An examination of foreign demand for Canadian wheat by country also indicates a tentative export of 11.5 million tons. Of this amount, over one-half is expected to go to Canada's four largest consumers -- Japan, China, the USSR, and United Kingdom. Inclement weather conditions have lowered

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harvest prospects in China and the USSR. China has already increased imports by one million tons and the USSR is expected to approach Canada seeking 1.5 million tons. Japan is expected to again increase its import demands, and the UK, although decreasing its demand slightly in recent years, will still account for over one million tons. India, usually a major factor, has already received grants of 140,000 tons. High prices will probably keep India out of the market with hopes of an additional grant from Canada of 160,000 tons. The balance of our export estimates are based on past data available from the IWC and assumes Canadian wheat exports to regular customers.

Feedgrains: Canada is a net importer of corn; probably about 700,000 tons from the US in FY 75. The barley harvest this fall is expected to reach 10.1 million tons, just short of the 1973 crop. Increased stocks, however, could make 3.7 million tons available for export, compared with about 2.7 million tons exported in FY 74. Yet actual export may not exceed 2.7 million tons due to the transport problems mentioned earlier.

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Western Europe and the EC

Grain production in 1974 is expected by USDA to set a record of 137.5 million tons -- 3% higher than last year. The high output results from an expanded grain area of nearly 1 million hectares; yields remain at last year's level. Most of the increased area was sown to wheat, thus contributing to an expected boost in output of 2.8 million tons or about 5%. Production of coarse grains may be up only 2% to 84.5 million tons. Major gains in grain production will be registered by Spain, France, and Italy.

Wheat: Little wheat is expected to be available for export by Western Europe from other than the European Community (EC). Given the record harvest of wheat and large carryover stocks in the EC, an estimated 10 million tons should be available for export or for livestock feed. Recent forecasts of a poor US corn crop, high prices on the world market, and US official pressure on the EC to cutback feedgrain imports, however, now means that more wheat will be fed livestock than earlier predicted. The EC Agricultural Commissioner recently told USDA officials that 500,000 tons of wheat/month will be substituted for feedgrains over the next 6 months. Thus EC exports of wheat in FY 75 outside the area are now estimated at no more than 3 million tons compared to 6 million tons the previous year. Considerable uncertainty obviously still

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surrounds any such quantitative estimates of export levels at this time.

The main wheat importing area in Western Europe is the EC, which may import 4-5 million tons (excluding intra-EC 9 trade) in FY 75 compared with imports of 6 million tons in FY 74. Hard wheats are imported, as well as durum, for mixing with the domestic soft wheats by the milling industry. The final level of import will depend not only on the size of the harvest but also on milling quality and protein content of the wheat; both were unusually high a year ago.

Feedgrains: Western Europe is a large net importer of feedgrain, especially corn. In FY 74, the region was a net importer of slightly more than 20.5 million tons. The US exported over 15 million tons of feedgrains -- mostly corn -- to Western Europe in FY 74, including 11.5 million to the EC.

According to August estimates of USDA, the region's FY 75 net import demand for feedgrains compared to last year is expected to drop by about 7 million tons. Demand for US corn is expected to fall 4 million tons to 6.5 million. The predicted lower import demand is based on the expanded use of wheat as a feedgrain and a smaller requirement for

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concentrated feed because of the depressed European livestock industry. The excess supply of poultry products and pork has resulted in EC actions to reduce numbers of chickens and hogs in the coming year.

Whether the EC reduces imports as much as now forecast remain to be seen. Export contracts for corn as reported by US brokers on sales to Western Europe are running ahead of 1973/74. Undoubtedly these data are inflated as a hedge against possible imposition of US export controls, but there is no way of knowing how much. Also, EC imports of corn from South America and Argentina may be stepped up which could put pressure on US corn supplies by other importers. It may be early 1975 before the situation is clarified.

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Eastern Europe

We estimate grain production in Eastern Europe* at only 70 million tons in 1974, compared with 72.7 million tons in 1973. Grain imports during FY 75 are projected at 9 to 10 million tons, up from 8 million tons in FY 74. Imports will be evenly divided between wheat and feedgrains. The northern countries -- Czechoslovakia, East Germany, and Poland -- will account for almost all of the grain imported. Among the traditional southern countries, only Romania is expected to require imports of grain, largely feedgrain.

Wheat: The Soviet Union probably will supply 4.0 million tons of grain, mostly wheat, to Eastern Europe. The other one million tons will have to be purchased from Western exporters. US wheat exports to Eastern Europe are not expected to exceed 0.5 million tons.

East German requirements are expected to be similar to last year. Imports of wheat are estimated at 1.5 million tons, of which the Soviet Union will supply 1.0 million tons. The remaining 500,000 tons could be imported from Australia under

*Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania.

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a trade agreement in force since FY 74.

Polish import requirements are uncertain at this time. A downward revision in the estimate of area sown to grain and continuing bad weather have lowered our estimates of Polish grain production to about 20.5 million tons, compared with 21.6 million tons produced in FY 74. Total wheat imports may be as high as 1.9 million tons, of which 400,000 tons may come from the West. Major western suppliers will be either the US or Canada.

Romania -- normally a grain exporter -- faces its second consecutive shortfall in production. Small wheat imports may be needed in FY 75 to satisfy pressing export commitments.

Corn: Total requirements for feedgrain imports are difficult to determine yet due to weather uncertainties and unknown EE reaction to world price trends. As much as 1.8 to 2.4 million tons of US corn may be imported directly or indirectly through third country shipments.

Poland's potato crop, about 60% of which is fed to livestock, is threatened by excessive soil moisture. Livestock numbers are up by more than 5% from a year ago. Corn imports will probably range from 600,000 tons to 700,000 tons, but would go higher if the potato crop fails.

Romania's corn crop probably will not surpass even last year's depressed output of 7.2 million tons. Bucharest has

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already received \$31 million in credits for US grain, of which \$6 million is for corn. Romania is willing, however, to substitute other feedgrains for corn. The level of East Germany's corn imports will fall in the range of 1 to 1.5 million tons depending upon that country's expectations regarding prices and US export policies. A large share of the US corn imported by East Germany actually is transhipped through Hamburg and thus may show up on US records as an export to West Germany.

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PRC

The PRC appears to be headed for another disappointing harvest and record foodgrain imports. Output in 1974 will likely fail to reach the 250 million tons harvested in 1973 and may fall below the 236 million ton level of 1972, China's poorest harvest in recent years. Early harvested grain crops -- which normally account for 40% of China's grain output -- were below normal because of drought in the north and unseasonable frost in the south. The fall-harvested crops have been adversely affected by the late arrival and erratic behavior of the monsoon this year. While a good harvest of intermediate and late rice is still possible, the harvest of coarse grains is unlikely to match the good crop of 1973. In addition to weather problems, growth in grain output this year has been limited by holding the growth in fertilizer supply to only 7%, compared with 16% in 1973.

The smaller harvest and expanding needs will push China's imports to about 10 million tons in FY '75, nearly 2 million tons more than last year. The PRC is cutting back corn imports and expanding those of wheat relative to FY 74.

Wheat: Total wheat imports probably will amount to about 9.0 million tons, of which 8.1 million tons have already been contracted. The contracts show 2.8 million tons from the

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US, 3 million tons from Canada, 2 million tons from Australia, 0.21 million tons from the EC and 0.25 million tons from Argentina. Additional purchases are expected.

Corn: About 750,000 tons of corn will be imported, of which about 500,000 tons are already contracted -- 420,000 tons from Argentina and 80,000 tons from the US (carryover from FY 74). China is not expected to buy more US corn because of dissatisfaction with quality and a deliberate policy of diversifying sources of supply.

PRC Grain Imports (in Thousand Tons)

	<u>Wheat</u>		<u>Corn</u>		<u>Total</u>	
	<u>FY 74</u>	<u>FY 75</u>	<u>FY 74</u>	<u>FY 75</u>	<u>FY 74</u>	<u>FY 75</u>
United States	3,108	3,000	1,734	80	4,842	3,080
Canada	1,608	3,000	0	0	1,608	3,000
Australia	1,216	2,000	0	0	1,216	2,000
Argentina	0	500	342	670	342	<u>1,170</u>
Other and Unknown	0	<u>500</u>	0	0	0	500
TOTAL	5,932	9,000	2,076	750	8,008	9,750

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USSR

Dry weather in July reduced our estimates of the 1974 Soviet grain output from 205 to slightly less than 200 million tons. Although this would be second only to last year's bumper crop of 222.5 million tons, it would barely cover the lower end of the range of estimated Soviet domestic requirements and export commitments of 198-211 million tons. Wheat production is now estimated to be 25 million tons below last year's 110 million tons. However, the Soviets have the option this year of drawing on some 20-30 million tons of stock from last year's record harvest to meet requirements.

So far, the Soviets have made no new grain contracts for FY 75 and are unlikely to do so until the outcome of this year's spring wheat harvest is known in late September. They have 662,000 tons of wheat and 470,000 tons of corn left over from 1972 and 1973 contracts with US grain brokers to be delivered in FY 75. More than half of the wheat on these contracts, originally to be supplied from the US, will now come from Argentina and Hungary.

Wheat: Whether the Soviets decide to buy more wheat this year depends on the quality of the grain in carry-over stocks and world grain prices. If a substantial share of the wheat reserves have lost their milling quality, the

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Soviets could buy as much as 3 million tons of wheat for the baking industry, probably from the US and Canada. They are also likely to make their usual purchase of about 250,000 tons of wheat flour from Canada for delivery to Cuba.

Corn: Since the poor prospects for the US corn crop will keep world corn prices high, the Soviets are unlikely to buy more US corn in FY 75. Unlike 1972, feedgrain imports are not essential this year to support their livestock program. If necessary, reserves can be drawndown to meet requirements and larger amounts of wheat fed, especially that not suited for milling.

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India

The fall grain harvest, which accounts for two-thirds of annual grain production, will fall below last year's output of 67 million tons. The US embassy estimates production between 59 and 64 million tons depending principally on rainfall during the remainder of the June-September monsoon.

At the lower end of the grain production forecast -- 59-61 million tons -- India will need imports of 7-8 million tons or more in FY 75. Production at the high end of this range -- 62-64 million tons -- would reduce grain import requirements to about 5-6 million tons. India already has arranged imports of about 2.8 million tons of grain, mostly through commercial purchases. About 500,000 tons of sorghum is included in the total; world shortages of sorghum will likely preclude India buying more.

India has discussed with US officials a need for 8 million tons of concessional grain imports from all sources during the next 18 months, but prospects for such aid are poor. New Delhi is seeking a repeat of last year's 2 million ton grain loan from Moscow. The USSR, however, now appears unwilling to provide additional grain. New Delhi is also seeking 1 million tons of wheat from the EEC which is not likely to materialize. So far, however, India has not

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officially requested a resumption of PL-480 grain shipments. Instead, India would like grain provided on long term credits, or barter terms, or indirectly through the UN.

Foodgrain imports are a major part of the import bill India faces over the next 12 months. Food, petroleum, and fertilizer import requirements will cost about \$3 billion, some 80-90% of export earnings. With foreign exchange reserves of \$1.4 billion, India will need foreign aid beyond existing commitments to meet its import bill.

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Selected Potential PL-480 Recipients

1. Bangladesh
2. Burma
3. Cambodia
4. Egypt
5. Indonesia
6. Morocco
7. Pakistan
8. Philippines
9. Sahel
10. South Korea
11. South Vietnam
12. Sri Lanka

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Bangladesh

We estimate FY 75 foodgrain production at about 12.0 million tons -- not significantly different from last year's 11.8 million tons. This estimate includes allowances for recent flood damage.

Imports of at least 1.8 million tons of wheat are needed in FY 75 to prevent a deterioration in already minimal grain consumption. (Grain imports in FY 74 totalled 1.7 million tons.) This volume of imports will not allow for any stock buildup and will sorely test the government's ability to keep its food distribution system operating. Imports now anticipated, including 100,000 tons of FY 75 PL-480 wheat, will supply about 950,000 tons leaving 850,000 tons to be arranged.

The government is seeking to purchase more foreign grain as well as pleading with potential donors for assistance. Government purchases will be severely constrained by a shortage of foreign exchange. A contract for 250,000 tons of wheat was cancelled in July for lack of funds. Additional foreign assistance will be required if the minimum 1.8 million tons are to be imported this year.

Burma

Unusually severe floods during August this year probably destroyed about 500,000 tons of rice, or about 10%, of Burma's annual output. This loss will further erode the country's

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precarious foreign exchange position and accentuate the already tight domestic food situation. The tonnage, roughly equal to past annual exports represents a prospective loss of at least \$150 million. Food shortages earlier this year led to civil rioting in June, prompting a halt in rice exports and government promises to alleviate shortages of food and other consumer goods through imports.

Burma would like to import 15,000-20,000 tons of wheat in FY 75. The Burmese delegation attending the IMF/IBRD Governor's meeting in Washington in late September may use the occasion to sound out US officials on aid commitments, citing the recent flood losses as justification. If aid is not forthcoming, Burma will probably import only about 10,000 tons of wheat in FY 75, mostly from Australia.

Cambodia

Cambodia's rice import needs for FY 75 will depend not only on the size of its domestic harvest, but on the government's ability to procure this harvest and on changes in the number of refugees residing in government-controlled areas. Government losses of territory and farmers, combined with shortages of fertilizer and spare parts, have kept domestic rice output at a fraction of pre-war levels. The 1973/74 crop was one-fourth that of 1969/70, the last pre-war harvest. Although it is still

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early to estimate the 1974/75 crop, it will probably not be significantly greater than last year's because of continued military operations and reduced availability of fertilizer. As a result, requirements of imported rice for FY 75 will most likely be about the same as last year's or on the order of 300,000 metric tons.

Corn, once an important export, now is imported primarily for animal feed. Domestic corn output, as with rice production depends largely on military developments. It is unlikely, however, that Cambodia's corn import requirements will fall much below the level of 5,000 tons.

Cambodia is completely dependent on foreign aid to finance imports. Foreign exchange earned by exports will cover less than 10% of the country's anticipated imports in 1974, and exchange reserves are currently running at less than two months' worth of imports.

Egypt

Cairo projects wheat output in 1974 at 2.1 million tons, up slightly from about 2 million tons in 1973. Egyptian official estimates of import needs -- 3.3 million tons for FY 75 and 325,000 tons of corn -- strongly suggest a stockpiling effort. In view of crop prospects, past consumption patterns,

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and a reserve stock of at least 500,000 tons of wheat likely already accumulated, the import requirement to meet FY 75 consumption needs probably is no more than 2.0 million tons of wheat and about 250,000 tons of corn. Australia is expected to supply 1 million tons of wheat to Egypt under a long-term agreement. In FY 74, Egypt imported 3.0 million tons of wheat.

The actual level of grain imports will depend heavily on Egypt's financial circumstances. Egypt faces a \$600 million current account deficit unless it is covered by Arab countries. Ample foreign project aid and foreign venture capital is available to finance capital goods imports, but the prospect for general balance of payments support is far less favorable. Cairo's total grain purchases, as in the past, will be heavily dependent on the level of Arab aid or credit from wheat suppliers. If such help becomes available Egypt most likely will import as much as 3 million tons of wheat in FY 75.

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Indonesia

Rice production in 1974 is expected to reach a record high of 15.3 million tons in spite of heavy rains and late fertilizer arrivals. Nevertheless, the government still wants to import 1.2-1.5 million tons in order to have adequate stocks on hand. In addition, Djarkarta plans to import 720,000 tons of wheat in FY 75, including a hoped-for PL 480 shipment of 100,000 tons.

With expected foreign exchange reserves of \$2.4 billion by the end of its FY 75 (1 April 1974 -- 31 March 1975), Indonesia can afford to purchase food commercially, even at higher prices. PL 480 contributions, however, are still being requested on the grounds that a premature aid cutback could disrupt the momentum in Indonesia's development program.

Morocco

Despite late planting due to late rains and reports of rust damage, wheat production is expected to increase in the current harvest to a near record 2.9 million tons. As a result, wheat imports will be cut back sharply, from the 1 million tons (700,000 tons from US) in FY 74 to an estimated 390,000 tons in FY 75. This level of import would also permit some stock buildup. Donations of wheat in 1974/75 are expected to include 15,000 tons from the EC, and 660 tons from Canada. In addition, Morocco apparently expects to get a repeat of last

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year's 60,000 tons of Title II flour from the US. Also, about 35,000 tons of corn will be imported in 1974/75 (all from the US) mostly for the growing poultry industry. With the lower import requirements, however, and Morocco's booming foreign exchange earnings -- thanks to its position as the world's largest exporter of phosphates -- Morocco's economic picture is bright. A moderate surplus in the balance of payments should be recorded this year and continued gains from phosphate exports are expected in 1975.

Pakistan

Government estimates of Pakistan's 1974 spring wheat harvest were lowered recently from 8.6 million tons to between 7.5 and 8.0 million tons. (Our Agricultural Attache is holding his estimate at 8 million tons.) We estimate wheat imports for FY 75 at 800,000 tons. In FY 74, 1.1 million tons of wheat were imported, in part to make up losses incurred in the August 1973 floods.

Wheat imports will go to the government's ration shops to supplement urban consumption at subsidized rates. The government is about one million tons short of its supply goal of 2.2 million tons. Domestic procurement has been hampered by the smaller than expected spring wheat harvest and the government's below-market procurement price.

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Pakistan has already purchased 200,000 tons of US wheat and expects donations from various countries to total about 100,000 tons. Islamabad wants to import at least 500,000 tons more and is pushing for PL-480 assistance and CCC credits.

The nation is in a reasonably good financial position due to the recent rescheduling of its foreign debt, a \$500 million aid commitment from consortium countries and several hundred million in loans from oil-rich Moslem countries. Nonetheless, import costs have soared while markets for its principal exports -- cotton and cotton textiles -- are sagging.

Philippines

Projected imports of wheat for the Philippines are about 630,000 tons for FY 75, up from 524,000 MT in FY 74 when foreign purchases were held down by high costs and domestic pricing problems. Three-fourths of this year's imports will come from the US and the major part of the remainder will come from Canada.

Corn production will be up slightly this year, but corn imports are expected to increase by 10,000 tons to at least 100,000 tons in FY 75. Imports from the US will be about 80,000 tons. The Philippines has asked for 50,000-60,000 tons through the PL-480 program; and balance through commercial transactions. A solid economic recovery in 1973, however, and strong export performance again this year have

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expanded the country's foreign exchange holdings.

If aid is not forthcoming, the full 80,000 tons probably will be purchased. Imported yellow corn, which is used in commercial livestock feed mixes, released domestic white corn for human consumption.

Sahel

Despite the fact that summer rains have broken the multi-year drought in the sub-Sahara region, the area will continue to need large amounts of grains, mainly sorghum. Seed supplies were marginal at planting time this summer and the cultivated acreage was reduced by displacement of large numbers of farmers to urban centers and refugee camps. Moreover, part of the area was swept by serious floods in late August. Limited exports and near zero foreign exchange reserves will continue to force the Sahelian states to rely on foreign donations for almost all of their grain imports.

Estimates of total grain import needs for the area will be prepared by the UN in October. In FY 74, the US contributed about 255,000 tons of sorghum and corn to the Sahel, about half of total grain imports. Similar US sorghum exports to the Sahel in FY 75 are tentatively estimated between 200,000 and 300,000 tons, depending on future weather developments.

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South Korea

Wheat: In FY 74, South Korea imported an estimated 1.6 million tons of wheat and 25,000 tons of wheat flour, all from the United States. Domestic production from the June-July 1974 harvest is down 8% to 150,000 MT and consumption has been increasing. It is tentatively estimated that FY 75 wheat imports will reach 1.7 million tons in FY 75. It is difficult to estimate requirements during the last half of FY 75 until more is known about what the relationship of rice vs wheat flour will be at the retail level. Recent price changes tend to favor consumption of wheat over rice to reverse a trend.

Corn: In FY 74, South Korea imported about 465,000 MT of corn including 420,000 MT from the US and nearly 45,000 MT from Thailand. In FY 75, requirements for feed corn are likely to reach 520,000 MT, while those for non-feed purposes should total about 140,000 MT. Production of corn this September-October is likely to total at least 60,000 MT, the same as last year. Since no change in stocks is indicated, FY 75 corn imports are estimated at 600,000 MT. Thailand will provide some 100,000 MT, with the remainder being sought almost entirely from the US.

Rice: Rice imports in FY 74 amounted to 155,000 tons. Last year's October-November crop totaled a record 4.21 million

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tons, but this year's harvest is likely to be lower due to unfavorable weather, insufficient fertilizer, and insect damage. Government-owned rice stocks are low, and in June Seoul purchased 200,000 tons of US rice on a commercial basis for delivery in FY 75. Additional imports probably will be needed later in the fiscal year, but the amount is uncertain. In May, the Koreans asked for \$86 million worth of PL 480 rice deliveries in FY 75 -- an estimated 250,000 tons at current US prices.

Korea's ability to finance grain imports during FY 75 is being adversely affected by soaring oil import costs. During the first half of 1974, the trade deficit reached \$1 billion, roughly double the half year deficits in the previous three years. Korea's balance of payments on current account in 1974 is expected to show a deficit of \$1.1 - 1.2 billion up some \$800 million from last year. Moreover, Seoul is hard-pressed to maintain its present level of foreign exchange reserves, which have fallen below \$1 billion and cover less than two months' worth of imports.

Korea has stepped up borrowing from foreign banks and international lending institutions; \$500 million in bank credits were obtained through June, three times the amount recorded in the same period last year. Without a further acceleration of borrowing, however, the country would require

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official aid to finance its expected current account deficit in 1974. This need should not change appreciably throughout FY 75. Non-US aid during this period is likely to be around \$140 million while projected US aid (excluding PL 480 assistance) totals about \$25 million. The resulting aid gap amounts to \$130-\$130 million.

South Vietnam

The US Embassy in Saigon projects PL 480 wheat imports of 240,000 tons in FY 75. This amount would be adequate to meet the usual demand of 20,000 tons per month. Wheat consumption, however, may fall markedly. Wheat product prices in Vietnam have risen 300% in the past year and consumption recently has dropped to as low as 4,000 tons a month. Assuming some recovery in the current rate of consumption over the course of FY 75, PL 480 wheat requirement will probably be on the order of 125,000 - 175,000 tons.

Vietnam produces some corn for both human and animal consumption. PL 480 imports are for animal feed. Import requirements are expected to decline to 25,000 tons in FY 75 (from 44,650 tons in FY 74) because of gains in feed corn and sorghum production.

Estimates of an excellent 1973-74 rice crop and adequate stocks in Saigon suggest that PL 480 rice requirements for FY 75 should be on the order of 200,000 tons, compared with

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300,000 tons in FY 73. However, South Vietnam's requirements for rice imports depend not only on domestic production but also of the movement of rice from the Delta-producing region to Saigon and other deficit areas. Military or other disruptions that would cut off Saigon from Delta supplies or reduce the output of the autumn crop could raise PL 480 needs closer to 450,000 tons projected by the US Embassy. Because of Vietnam's poor foreign exchange position, Saigon would require some form of concessional aid.

Sri Lanka

Sri Lanka's foodgrain situation is tight. It is less critical than last year at this time, however, due to larger rice harvest and persistent efforts to arrange commercial and concessional grain imports. While there is no need to arrange further imports for the first half of FY 75, imports of 100,000 tons of flour and as much as 200,000 tons of rice will be required to maintain government rations in the second half of FY 75. Sharp increases in the cost of imported food and petroleum have caused foreign exchange problems requiring the imposition of stringent import restrictions.

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